

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL OF KHAI-MA MUNICIPALITY ON THE
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF KHAI-MA
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Khai-Ma Local Municipality which comprise the appropriation statement, the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 1 to 50.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Statements of Generally Recognised Accounting Practice and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Khai-Ma Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Khai-Ma Municipality as at 30 June 2009 and its financial performance and cash flows for the year then ended, in accordance with the effective standards of Generally Recognised Accounting Practice (GRAP), and in the manner required by the MFMA.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matters:

Going concern

9. The municipality experienced severe cash flow problems. This is due to the fact that the municipality has a very small income base because of the severe number of unemployed households within the region. The municipality is dependant on grant funding due to the small income base. Should the equitable share not be increased substantially in the future, the municipality will be faced with serious going concern problems. Refer to note 61 to the financial statements where this going concern was disclosed.

Unauthorised expenditure

10. As disclosed in note 47.1 to the financial statements, unauthorised expenditure to the amount of R15 799 896 was incurred, as a result of total expenditure exceeding the annual budget.

Irregular expenditure

11. As disclosed in note 47.3 to the financial statements, irregular expenditure to the amount of R15 744 595 was incurred, as a proper tender process was not followed.

Fruitless and wasteful expenditure

12. As disclosed in note 47.2 to the financial statements, fruitless and wasteful expenditure to the amount of R5 544 was incurred, as a result of interest paid on overdue accounts.

Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Other information included in the annual report

13. I have not obtained the other information included in the annual report or an annual report itself and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

14. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with its legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information set out on pages 51 to 58 do not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act

15. The municipality has an overdraft facility, however no evidence could be provided to ensure that this was approved by the council, as required by section 45(2) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).
16. The accounting officer did not inform the provincial treasury in writing of the failure by the council of the municipality to adopt or implement a budget-related policy as required by section 73 of the MFMA.
17. The municipality did not submit and table the annual report as required by section 129 of the MFMA.
18. The accounting officer did not inform the mayor, the MEC for Local Government in the province and the Auditor-General, in writing, of irregular and unauthorised expenditure incurred by the municipality as required by section 32(4)(a) of the MFMA.
19. The municipality did not comply with section 65(2)(e) of the MFMA by paying its creditors within 30 days of receipt of the relevant invoice or statement.

20. The accounting officer did not fulfil his responsibilities for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets, as required by section 63(1)(a) of the MFMA.

Municipal Systems Act

21. The disclosure of conflict of interests was not adequately documented as per schedule 1(S5) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
22. There were no signed performance agreements for the municipal manager and managers for the financial year under review as required by section 57(1)(b) of the MSA.

Supply Chain Management Regulations

23. The municipality did not have a list of accredited prospective providers of goods and services as required by the Supply Chain Management Regulations (per GNR868).

Governance framework

24. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Key governance responsibilities

25. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Many of these have been addressed in detail above. The table below reflects how certain of the financial and governance matters as well as other matters included under the reporting on performance information below, will be reported in the auditor's report.

No	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	X	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		X
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.		X
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	X	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	• The Municipality had an audit committee in operation throughout the financial year.		X
	• The audit committee operates in accordance with approved, written terms of reference.		X
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		X

No	Matter	Y	N
7.	Internal audit		
	<ul style="list-style-type: none"> The Municipality had an internal audit function in operation throughout the financial year. 		X
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 		X
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 		X
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		X
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i) of the MFMA.		X
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.		X
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		X
14.	SCOPA resolutions have been substantially implemented.	n/a	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		X
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Khai- Ma Municipality against its mandate, predetermined objectives, outputs, indicators and targets as per section 68/87 of the MFMA.		X
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		X

- 25.1 The financial statements were materially amended during the performance of the audit. This is mostly due to irregular, fruitless and wasteful and unauthorised expenditure that was identified by the auditors during the performance of the audit. Therefore management did not identify these issues during the year, which indicates a lack of monitoring and supervision.
- 25.2 An annual report was not prepared for the year under review. The accounting officer should ensure that an annual report is prepared in accordance with the MFMA.
- 25.3 The financial statements were not submitted on time as per the legislative deadline as the municipal offices were closed for four months during the year due to political unrest. This resulted in a backlog of work to have the financial records up to date before the financial statements could be compiled.
- 25.4 The municipality did not have any audit committee or internal audit functions performed during the year. Management should liaise with their district municipality to assist with these functions as shared functions are allowed by the MFMA. Internal audit and audit committee functions are imperative to ensure the proper functioning of internal control.
- 25.5 Inadequate accounting and internal control policies existed at the municipality resulting in various cases of non-compliance with legislation and accounting guidelines.
- 25.6 Management should develop and implement an adequate fraud prevention plan. This needs to be communicated to all staff within the municipality to ensure adherence thereof.
- 25.7 The implementation of audit recommendations requires improved monitoring and supervision by management.
- 25.8 There is no performance information system in place at the municipality. The IDP also is inadequate as it does not have key performance indicators. The IDP and budget furthermore are also not aligned. Detailed standard operating procedures setting out the roles and responsibilities of all levels of staff involved in the collection and collation of performance information, from source document to reporting, has not been prepared and communicated throughout the entire municipality. This is indicative of a situation where adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information and adequate mechanisms were not established to monitor and review the performance management system.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

26. I was engaged to review the performance information.

The accounting officer's responsibility for the performance information

27. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

28. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

29. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

30. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Findings of performance information

Non-compliance with regulatory requirements

No reporting of performance information

31. The Khai-Ma Municipality did not prepare an annual report or an annual performance report for the municipality in terms of section 46 of the MSA, and as required by section 121(3)(c) of the MFMA and because of the non-submission the reliability and consistency of performance information could not be confirmed.

32. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives, as required by section 26(c) of the MSA.

No service delivery budget implementation plan

33. The municipality did have a service delivery budget implementation plan, but this was not implemented as it was not approved by the mayor as required by section 53(1)(c)(ii) of the MFMA.

Lack of effective, efficient and transparent systems and internal controls regarding performance management

34. The accounting officer did not ensure that the municipality had and maintained an effective, efficient and transparent system and internal controls regarding performance management, which described and represented how the institution's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA.

Content of integrated development plan

35. The integrated development plan of the Khai-Ma Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.
36. Through inspection of the IDP 2007-08 to 2011-12 it was identified that there were no key objectives per objective. This is in contravention of the MSA, sections 41(1) and 45.
37. No evidence could be obtained regarding the submission of the 2007-2011 IDP or 2008-09 to the MEC for Local Government, as required by section 32(1)(a) of the MSA.

No mid-year budget and performance assessments

38. The accounting officer of the municipality did not assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

APPRECIATION

39. The assistance rendered by the staff of the Khai-Ma municipality during the audit is sincerely appreciated.

Auditor-General

Kimberley

1 February 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence